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Enhancing Competitiveness and Connectivity: The New US-Mexico Air Services Agreement

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ABSTRACT

Beginning this year, U.S. cargo and passenger airlines will have an opportunity to compete for a bigger share of freight trade and traffic between the U.S. and Mexico. This opportunity will occur as a result of the new Air Services Agreement (ASA) between the U.S. and Mexico that took effect in January, 2016. This ASA further elevates and strengthens the dynamic commercial and economic relationship between the United States and Mexico by facilitating greater trade and tourism. It is a key element of the U.S.-Mexico High Level Economic Dialogue (HLED) that aims to promote competitiveness and connectivity, foster economic growth, productivity and innovation, and partner for regional and global leadership (U.S. Department of State 2014). This paper (i) explains the genesis and impact of HLED, (ii) provides a brief historical perspective on air services agreements in general and freedoms of the air, (iii) summarizes the major principles of the previous US-Mexico ASA of 1960, as amended in 2005, (iv) outlines the essential elements of the new US-Mexico ASA that is scheduled to take effect in January 2016, (v) describes the likely effects of the new ASA on regional and global air cargo traffic and supply chains, and lastly (vi) provides some directions for future scholarly research.

INTRODUCTION

In commenting on this new air services agreement with Mexico, U.S. Transportation Secretary Anthony Foxx said (DOT 105-14, 2014):

> "Travelers, shippers, airlines, and the economies of both countries will benefit from competitive pricing and more convenient air service. This agreement is the result of the commitment on both sides of the border to strengthen the strong bonds of trade and tourism between our two countries, and demonstrate our shared commitment to a competitive, market-based international economic system."

The Secretary is alluding to the fact that the U.S. Department of State's Economic and Business Affairs Bureau reached an agreement, ad referendum, in November, 2014, on a new civil aviation agreement between the Governments of the United States of America and the United Mexican States. This agreement further elevates and strengthens U.S. and Mexico's dynamic commercial and economic relationship by facilitating greater trade and tourism. It is a key element of the US-Mexico High Level Economic Dialogue (HLED) that aims to promote competitiveness and connectivity, foster economic growth, productivity and innovation, and partner for regional and global leadership (U.S. Department of State, 2014). The new agreement will benefit U.S. and Mexican passenger and cargo airlines, airports, travelers, and businesses by allowing significantly increased market access for airlines to fly between any city in the U.S. and any city in Mexico.

This paper (i) explains the genesis and impact of HLED, (ii) provides a brief historical perspective on air services agreements in general and freedoms of the air, (iii) summarizes the major principles of the previous US-Mexico ASA of 1960, as amended in 2005, (iv) outlines the essential elements of the new US-Mexico ASA that is scheduled to take effect in January 2016, (v) describes the likely effects of the new ASA on regional and global air cargo traffic and supply chains, and lastly (vi) provides some directions for future scholarly research.

THE GENESIS OF HIGH LEVEL ECONOMIC DIALOGUE

The United States and Mexico share more than just a 2,000+ mile border. These strategic allies and critical economic partners also share a dynamic commercial relationship that generates over $500 billion in two-way trade that supports millions of jobs in both countries (International Trade Administration, 2015). Together with Canada, the U.S. and Mexico comprise one of the most competitive and successful regional economic trading platforms in the world. The success and sustained competitiveness of this trading bloc is dependent in large measure on continued and deepened economic and commercial cooperation, integration and policy alignment. To this end, the presidents of the U.S. and Mexico established the High Level Economic Dialogue (HLED). Presidents Obama and Nieto announced the creation of the HLED in May of 2013 (White House, 2014). Economic integration and bi-national cooperation seek to strengthen close and productive bilateral economic and commercial ties, enhance competitiveness, create additional trade and economic opportunities, and foster economic growth, productivity, entrepreneurship, and innovation all in an effort to position North America as the most competitive and dynamic trade region in the world.

The HLED is led at the cabinet level in the U.S., and was envisioned as a flexible mechanism intended to advance strategic economic and commercial priorities central to promoting mutual economic growth, job creation, and sustained global competitiveness.

The HLED is organized around three broad pillars: (i) promoting competitiveness and connectivity; (ii) fostering economic growth, productivity, and innovation; and (iii) partnering for regional and global leadership. The HLED is intended to build on, but not duplicate, existing successful bilateral dialogues. Further, the HLED's three pillars were selected to coordinate shared interests and priorities affecting the growth and competitiveness of the U.S. and Mexican economies, focusing on the areas in which collaboration can promote mutual prosperity. Each year, cabinet-level representative from each country meet to establish the next years' strategic goals and set the agenda for future cooperation. Priorities are set up annually and embarked upon in a cumulative fashion henceforth. One of the first priorities set during the first year of the HLED was the updating of the US-Mexico Air Services Agreement in order to foster the pursuit and realization of the goals set forth in the three pillars of the HLED.

The new Air Services Agreement (ASA) is borne from HLED. President Obama and President Nieto identified the updating of US-Mexico Air Services Agreement as a crucial strategic priority in HLED. Before we discuss the essential elements of the new ASA, it is important to provide a brief historical perspective of air services agreements in general for the reader to have an understanding of two core constructs: (i) freedoms of the air, and (ii) open skies.

AIR SERVICES AGREEMENTS: AN HISTORICAL PERSPECTIVE

Commercial aviation has always been hampered by national security and protectionist concerns. Traditionally, an airline needed the approval of the governments of the various countries involved before it could fly in or out of a country, or even fly over another country without landing. Prior to World War II, this did not present too many difficulties since the range of commercial planes was limited and air transport networks were in their infancy and nationally oriented. However, in 1944, an International Convention was held in Chicago (later to be referred to as the Chicago Convention) to establish the framework for all future bilateral and multilateral agreements for the use of international air space. But despite these agreements and the immense growth in international air traffic since World War, international commercial passenger and cargo transportation remains tangled in a thicket of protectionist legislation that most countries use to keep their airline markets closed or semi-closed to foreign airlines. The General Agreement on Trade in Services ("GATS") did not affect this as the GATS annex on air transport explicitly limits coverage of air services to only aircraft repair and maintenance, computer reservation systems, and the selling and marketing of air transportation (U.S. DOT, 2015).

There are of course some legitimate concerns that have been cited as justification for these protectionist restrictions, among them: (i) national development and economic interests, (ii) economic interests of national airlines, (iii) trade and tourism needs, (iv) aviation safety, (v) job creation and preservation, (vi) national security, (vii) foreign exchange earnings (Van Fenema (2002) citing the ICAO survey of Contracting States, May 2001). Therefore, the fact remains that "if there is any single serious barrier to achieving air transport liberalization, it is [national] airline ownership and control restrictions. Since the U.K. and the U.S. signed the first Bermuda agreement in 1946, the nationality clauses contained in virtually all bilateral ASAs have limited the companies designated to provide services to airlines owned and managed by nationals of the respective countries." (Chang et al., 2004). The following paragraph summarizes the key points typically addressed in these agreements:

- "Bilateral agreements typically regulate carrier and route designations, capacity and frequency of services, pricing, and other commercial aspects of doing business. Bilateral agreements are based on the principle of reciprocity, an equal and fair exchange of rights between countries very different in size and with airlines of varied strength. Bilateral agreements vary in form, but they generally specify services and routes to be operated between the two countries, designate airlines and capacity to be provided by each airline, stipulate fare setting mechanisms, and specify conditions under which passengers may be taken or picked up in each country and flown to third countries (ûfth freedom rights). There is, at present, an extensive network of bilateral agreements. Each international airline faces a complex web of bilateral air services agreements signed by its home state. The existence of these bilateral agreements has greatly constrained the freedom of individual scheduled airlines, and limited competition in the international air transport industry," (Oum and Yu, 1998, Ch. 3).

The U.S. has taken the lead in recent years in trying to loosen some of these restrictions by pursuing various bilateral initiatives with other countries to further liberalize international commercial air traffic. Since 1992, the U.S. Department of Transportation's Office of International Aviation along with the U.S. Department of State, have pursued an "open-skies" policy designed to eliminate government involvement in airline decision-making about routes, capacity, and pricing in international markets (U.S. Department of Transportation, 2015). In summary:

- "Open skies agreements have vastly expanded international passenger and cargo flights to and from the United States, promoting increased travel and trade, enhancing productivity, and spurring high-quality job opportunities and economic growth. Open skies agreements do this by eliminating government interference in the commercial decisions of air carriers about routes, capacity, and pricing, freeing carriers to provide more affordable, convenient, and efficient air service for consumers . . . . By allowing air carriers unlimited market access to our partners' markets and the right to fly to all intermediate and beyond points, open skies agreements provide maximum operational flexibility for airline alliances. " (U.S. Department of State, 2015).

Currently, the U.S. has in force, or provisional, "Open Skies" bilateral aviation agreements with over 118 countries. In addition to bilateral open skies agreements, the U.S. has negotiated two multilateral open skies accords: (1) the 2001 Multilateral Agreement on the Liberalization of International Air Transportation (MALIAT) with New Zealand, Singapore, Brunei, and Chile, later joined by Samoa, Tonga, and Mongolia; and (2) the 2007 and 2010 "Open Skies Plus" Air Transport Agreement with the European Union and its 27 Member States. Table 1 reviews the U.S. Open Skies partners, either in force or provisional as of 2015.

The key goal of these open sky agreements is to expand the number of available "Freedoms of the Air" (Table 2 below).

Five freedom rights were initially designated and these first five freedoms were regularly exchanged between pairs of countries in ASAs. The remaining freedoms are the subject of newer open skies ASAs. Though in an ideal world, ASAs would provide all nine freedoms, in practice the eighth and ninth freedoms (both types of cabotage) are quite rare. So any agreement which includes at least the first seven freedoms is realistically as good as it gets.

THE PRIOR US-MEXICO AIR SERVICES AGREEMENT

The first ASA between the U.S. and Mexico came into force in August of 1960. At the outset, Mexico strived to protect its national airline, Aeromexico, from stiffened competition from numerous successful airlines based in the U.S. The agreement specified certain city-pairs, and limited to two the number of airlines in each country to fly between these city pairs. One popular Mexican destination, Acapulco, was limited to one airline. In 1977, the two countries renegotiated this provision and allowed a second airline to fly to this increasingly popular tourist destination in order to avoid any possibility of monopolizing this route. The air services agreement remained relatively unchanged over the next 18 years.

In 2005 the original agreement was amended to include the following city pair service agreements (these remain in effect through 2015):

- Each party (U.S. and Mexico) shall be entitled to designate two carriers with respect to routes between Mexico City (Benito Juarez International Airport) and the following cities: Chicago, Dallas/Ft. Worth, Dayton. Houston, Laredo, Miami, New York, and San Francisco.
- Each party (U.S. and Mexico) shall be entitled to designate three carriers with respect to routes between Mexico City (Benito Juarez International Airport) and Los Angeles.
- The carriers designated by the United States of America shall be permitted to operate air services from Dallas/Fort Worth and San Antonio to Mexico City, Toluca and Acapulco, and beyond to points in Panama and beyond; From New York, Washington, Baltimore, Los Angeles and Houston to Mexico City and Toluca, and beyond to a point or points in Central and/or South America.
- The airline or airlines designated by the Government of the United Mexican States shall be entitled to operate air services on each of the air routes specified, in both directions, and to make scheduled stops in the United States at the following: from Acapulco, Hermosillo, Mexico City, Toluca, Monterrey, Oaxaca, Puerto Escondido, Tampico, Veracruz, Villahermosa, and Zihuatanejo to Chicago, Kansas City, Minneapolis/St. Paul and St. Louis, and beyond to Canada; from Acapulco, Chihuahua, Guadalajara, Guaymas, Hermosillo, Huatulco, La Paz, Loreto, Manzanillo, Mazatlan, Mexico City, Toluca, Monterrey, Puerto Escondido, Puerto Vallarta, San Jose del Cabo, and Zihuatanejo to Cleveland, Detroit, Philadelphia, Washington, and Baltimore, and beyond to Canada; From Acapulco, Guadalajara, Huatulco, Loreto, Manzanillo, Mazatlan, Mexico City, Toluca, Monterrey, Puerto Vallarta, San Jose del Cabo, and Zihuatanejo to Boston and New York, and beyond to Europe; From Cancun, Cozumel,

TABLE 1
U.S. OPEN SKIES PARTNERS

Country	Application	Date
Netherlands	In force	1992
Belgium	Provisional	1995
Finland	In force	1995
Denmark	In force	1995
Norway	In force	1995
Sweden	In force	1995
Luxemburg	In force	1995
Austria	In force	1995
Iceland	In force	1995
Switzerland	in force	1995
Czech Republic	In force	1995
Germany	Provisional	1996
Jordan	In force	1996
Singapore	In force	1997
Taiwan	In force	1997
Costa Rica	In force	1997
El Salvador	In force	1997
Guatemala	In force	1997
Honduras	Provisional	1997
Nicaragua	In force	1997
Panama	In force	1997
New Zealand	In force	1997
Brunei	In force	1997
Malaysia	In force	1997
Aruba	In force	1997
Chile	In force	1997
Uzbekistan	In force	1998
Korea	In force	1998
Peru	In force	1998
Netherland Antilles	in force	1998
Romania	In force	1998
Italy	Provisional	1998
United Arab Emirates	In force	1999
Pakistan	In force	1999
Bahrain	In force	1999
Tanzania	Provisional	1999
Portugal	In force	1999
Slovak Republic	In force	2000
Namibia	C&R	2000
Burkina Faso	In force	2000
Turkey	In force	2000
Gambia	in force	2000

Nigeria	Provisional	2000
Morocco	In force	2000
Ghana	In force	2000
Rwanda	In force	2000
Malta	In force	2000
Benin	NA	2000
Senegal	In force	2000
Poland	In force	2001
Oman	In force	2001
Qatar	Provisional	2001
France	In force	2001
Sri Lanka	In force	2001
Uganda	In force	2002
Cape Verde	In force	2002
Samoa	In force	2002
Jamaica	In force	2002
Tonga	In force	2003
Albania	In force	2003
Madagascar	Provisional	2004
Gabon	In force	2004
Indonesia	C&R	2004
Uruguay	In force	2004
India	In force	2005
Paraguay	In force	2005
Maldives	In force	2005
Ethiopia	In force	2005
Thailand	In force	2005
Mali	In force	2005
Bosnia & Herzegovin	In force	2005
Cameroon	Provisional	2006
Cook Islands	In force	2006
Chad	Provisional	2006
Kuwait	In force	2006
Liberia	In force	2007
Canada	In force	2007
Bulgaria	Provisional	2007
Cyprus	Provisional	2007
Estonia	Provisional	2007
Greece	Provisional	2007
Hungary	Provisional	2007
Ireland	Provisional	2007
Latvia	Provisional	2007
Lithuania	Provisional	2007
Slovenia	Provisional	2007
Spain	Provisional	2007
United Kingdom	Provisional	2007
Georgia	In force	2007
Australia	In force	2008
Croatia	In force	2008
Kenya	In force	2008
Laos	In force	2008
Armenia	In force	2008
Zambia	In force	2010
Israel	In force	2010
Trinidad & Tobago	In force	2010
Barbados	NA	2010
Japan	In force	2010
Colombia	In force	2010
Brazil	NA	2010
Saudi Arabia	In force	2011
St. Kitts	In force	2011
Montenegro	In force	2011
Surinam	In force	2012
Sierra Leone	In force	2012
Macedonia	C&R	2012
Seychelles	C&R	2012
Yemen	C&R	2012
Guyana	C&R	2013
Bangladesh	C&R	2013
Botswana	In force	2013
Equatorial Guinea	In force	2014
Burundi	C&R	2014
Togo	In force	2015

Compiled from U.S. Department of State, May 29, 2015.
http://www.state.gov/e/eb/rls/othr/ata/114805.htm

TABLE 2
FREEDOMS OF THE AIR

First Freedom The negotiated right for an airline (from country (A) to overfly another country's (B) airspace.

Second Freedom The right for a commercial aircraft(from country (A) to land and refuel (commonly referred to(as a technical stop) in another country (B).

Third Freedom The right for an airline to deliver revenue passengers from the airline's home country (A) to another country (B).

Fourth Freedom The right for an airline to carry revenue passengers from another country (B) to the airline's home country (A).

Fifth Freedom (Sometimes referred to as beyond rights) The right for an airline to take passengers from its home country (A), deposit them at the destination (B) and then pick up and carry passengers on to other international destinations (C).

Sixth Freedom (Combination of Third & Fourth Freedoms) The right for an airline to carry passengers or cargo between two foreign countries (B and C), provided the aircraft touches down in the airline's home country (A).

Seventh Freedom The right for an airline to carry on flights that originate in a foreign country (B), bypass its home country (A), and deposit the passengers at another international destination (C).

Eighth Freedom The right for an airline to carry passengers from one point in the territory of a country (B) to another point within the same country on a flight that originates in the airline's home country (A). This freedom is also known as **cabotage**, and is extremely rare outside of Europe.

Ninth Freedom The right for an airline from a particular country (A) to originate a flight in a foreign country (B) and carry passengers from one point to another within the foreign country. This is also known as **stand alone cabotage.** It differs from the aviation definition of cabotage in that it does not directly relate to one's own country.

Guadalajara, Merida, Mexico City, Toluca and Monterrey to Houston and New Orleans, and beyond to Canada and Europe; From Guadalajara, Huatulco, Merida, Mexico City, Toluca and Oaxaca to Miami, and beyond.

Accordingly, after 2005, many city pairs allowed a third national carrier into service, but surprisingly, Mexico City remained at two. Mexico City stayed at two because they believed adding a third carrier would erode market share of Aeromexico. In response to the post-9/11 operating environment, which was characterized by heavy scrutiny and terror preparedness, the agreement was revised to require that pilots flying airlines between city pairs be permanent residents of the country they are flying from or to. Likewise, both countries were called upon to assist each other in their security provisions and procedures to ensure flights in and out of both countries were secure (U.S. Department of State, 2005).

The ASA, as amended in 2005, governed air services between the two countries for the next decade relatively untouched. Change was brought about by a new policy initiative between the two governments. This new initiative was a quest to strengthen the region as a trading bloc; pursue synergies and mutual economic prosperity; and enable innovation and global leadership.

THE NEW U.S.-MEXICO AIR SERVICES AGREEMENT

Negotiator Intentions and Interpretations

Delegations representing the U.S. and Mexican governments met in Mexico City on November 5-7, 2014, to conclude discussions and initialize a text of an agreement that would update and modernize the 1960 ASA, as amended in 2005 (U.S. Department of State, 2014). The delegates reaffirmed their resolve to promote a competitive international aviation system to facilitate the flow of passengers and goods. The delegates acted upon the identified importance of bilateral air transport relationships as codified in the U.S. HLED, and especially the HLED priority to promote competitiveness and connectivity through a modernized and updated air transport agreement. The delegates from each country intended to recommend to their respective governments that this text supersede the prior agreement.1 However, in discussing Article 2, Paragraph 2 (Grant of Rights), the delegations noted their mutual understanding that nothing in the new agreement grants cabotage rights. The text is subject to codifying by the corresponding authorities of each country.

Both delegations noted that any surface transportation company operating under Article 8, paragraph 8 (Commercial Opportunities), is subject to the laws, rules, and regulations that are applied on a reasonable and non-discriminatory basis and do not constitute an effective denial of the intermodal rights in the new Agreement. The delegations also noted their mutual understanding that the exercise of rights of airlines pursuant to Article 8, paragraph 8, to operate their own surface transportation within the territory of the other country for intermodal operations would be in accordance with the applicable international obligations, laws, rules, and regulations for surface transportation companies (U.S. Department of State, 2014).

Furthermore, with respect to Article 12, paragraph 2 (Pricing), both delegations expressed the expectation that the aeronautical authorities requesting pricing for informational purposes would seek to minimize the administrative burden on airlines of providing the requested information. The delegations noted that they expect airlines of both countries to comply with the regulations of either country concerning the filing of pricing information, as applied on a non-discriminatory basis, and any filings retained by the requesting aeronautical authority would not be made available to competing air carriers.

In discussing Article 18 (Entry into Force), the delegations noted that should the necessary internal processes of both countries be completed prior to January 1, 2016, the target date, the civil aeronautical authorities by mutual understanding might consider application of the new rights that will be available under the new Agreement and consistent with the applicable laws and regulations of each country.

Both delegations noted that the new agreement represents a significant step forward in the aviation relationship, creates opportunities in a new and modern pro-competitive environment, and sets the stage for substantial public benefits.

Essential Elements of the Agreement

A quick summary of the major objective of each of the 18 Articles of the new US-Mexico ASA" can be found in Appendix 1; while Appendix 2 includes the full text of the agreement. All the city pair provisions of the prior US-Mexico ASA as amended in 2005 became moot on January 1, 2016. That is, any airline can fly to any Mexican city from any American city, and vice versa. The new agreement states:

Route Schedule: Combination Services (Persons, Cargo and/or Mail)

1. The airline or airlines designated by the Government of the United States of America shall be entitled to operate combination air services on each of the air routes specified, in both directions, and to make scheduled stops in Mexico at the points specified in this paragraph:

a. From a point or points in the United States to a point or points in Mexico.

b. From Dallas/Fort Worth and San Antonio to Mexico City, Toluca, and Acapulco, and beyond to points in Panama and beyond.

c. From New York, Washington, Baltimore, Los Angeles, and Houston to Mexico City and Toluca, and beyond to a point or points in Central and/or South America.

d. From a point or points in the United States, via an intermediate point or points, to a point or points in Mexico, and beyond, as mutually agreed in writing by the aeronautical authorities of the Parties.

2. The airline or airlines designated by the Government of the United Mexican States shall be entitled to operate combination air services on each of the air routes specified, in both directions, and to make scheduled stops in the United States at the points specified in this paragraph:

a. From a point or points in Mexico to a point or points in the United States.

b. From Acapulco, Hermosillo, Mexico City, Toluca, Monterrey, Oaxaca, Puerto Escondido, Tampico, Veracruz, Villahermosa, and Ixtapa/Zihuatanejo to Chicago, Kansas City, Minneapolis/St. Paul, and St. Louis, and beyond to Canada.

c. From Acapulco, Chihuahua, Guadalajara, Guaymas, Hermosillo, Huatulco, La Paz, Loreto, Manzanillo, Mazatlan, Mexico City, Toluca, Monterrey, Puerto Escondido, Puerto Vallarta, San Jose del Cabo, and Ixtapa/Zihuatanejo to Cleveland, Detroit, Philadelphia, Washington, and Baltimore and beyond to Canada.

d. From Acapulco, Guadalajara, Huatulco, Loreto, Manzanillo, Mazatlan, Mexico City, Toluca, Monterrey, Puerto Vallarta, San Jose del Cabo, and Ixtapa/Zihuatanejo to Boston and New York, and beyond to Europe.

e. From Cancun, Cozumel, Guadalajara, Merida, Mexico City, Toluca, and Monterrey to Houston and New Orleans, and beyond to Canada and Europe.

f. From Guadalajara, Huatulco, Merida, Mexico City, Toluca, and Oaxaca to Miami, and beyond.

g. From a point or points in Mexico, via an intermediate point or points, to a point or points in the United States, and beyond, as mutually agreed in writing by the aeronautical authorities of the Parties.

3. Without limitation, airlines of each Party may enter into cooperative marketing arrangements with an airline or airlines of either Party, or of a third country, to provide scheduled combination services to intermediate points and to points behind or beyond the territory of either Party.

Accordingly, the new agreement with Mexico provides the first seven freedoms of the air including unlimited market access for U.S. and Mexican air carriers, improved intermodal rights, pricing flexibility, and other important commercial rights (DOT 105-14, November 21, 2014). The ASA will remove the numerical limitations on the number of airlines that may provide passenger service in all Mexico-U.S. city pairs. Beginning January 1, 2016, any airline may serve any city. Many markets could see the entrance of new carriers for the first time in many years. Additionally, some carriers are likely to start to serve markets that were heretofore denied or unavailable. “Travelers, shippers, airlines, and the economies of both countries will benefit from competitive pricing and more convenient air service," said U.S. Transportation Secretary Anthony Foxx (DOT 105-14, 2014). "This agreement is the result of the commitment on both sides of the border to strengthen the strong bonds of trade and tourism between our two countries, and demonstrate our shared commitment to a competitive, market-based international economic system."

In addition to the international city pairs, if new airlines enter markets they had previously not served, a natural expansion of hub and spoke services is sure to follow. The new agreement could also positively impact some connecting services deeper into Latin America and also within the U.S. market. Larger airports in states such as Florida, Texas, California and Arizona are likely to see the most changes although the expansion would also impact existing large hubs such as Chicago, New York, Atlanta, Denver and others. Each designated airline has the right to set up operations in the other country for operational, ticketing and support purposes, including ground-handling.

THE EFFECT OF THE NEW ASA ON AIR CARGO TRAFFIC AND SUPPLY CHAINS

Though the new ASA is undoubtedly a bonanza for passenger traffic between the U.S. and Mexico, we would like to focus here on the effect of the new agreement on air cargo and global supply chains. The new agreement states:

- Route Schedule: All-Cargo Services (Cargo and/or Mail)

1. The airline or airlines designated by the Government of the United States of America shall be entitled to operate all-cargo air services on each of the air routes specified, in both directions, and to make scheduled stops in Mexico at the points specified in this paragraph:

    a. From a point or points in the United States, via an intermediate point or points, to a point or points in Mexico, and beyond.

    b. From a point or points in Mexico to any point.

2. The airline or airlines designated by the Government of the United Mexican States shall be entitled to operate all-cargo air services on each of the air routes specified, in both directions, and to make scheduled stops in the United States at the points specified in this paragraph:

    a. From a point or points in Mexico, via an intermediate point or points, to a point or points in the United States, and beyond.

    b. From a point or points in the United States to any point.

3. Without limitation, airlines of each Party may enter into cooperative marketing arrangements with an airline or airlines of either Party, or of a third country, to provide scheduled all-cargo services to intermediate points and to points behind or beyond the territory of either Party.

Thus, cargo carriers will see numerous expanded possibilities, including opportunities to provide service to destinations that were not available under the current agreement, and to offer services from the U.S. to Mexico and further to other countries beyond Mexico. This "stretching" of the supply chain as a consequence of the new ASA is pregnant with potential. Not only do carriers stand to gain by serving new markets, but shippers stand to gain as well by reaching distant markets through Mexico, while maintaining supply chain visibility.

Air cargo, despite being the most expensive form of cargo transportation, has boomed in the last few decades. Global air cargo has increased from 16,150 Cargo Revenue Ton-Miles (in millions) in 1991 to 64,875 in 2014 (U.S. DOT – Bureau of Transportation Statistics, 2015). There are many reasons for this, among them: (i) the need to reduce inventories and cut down the time it takes to move products to market, especially those products with shorter product life spans and subject to just-in-time (JIT) supply chain pressures (e.g., consumer electronics, pharmaceuticals, and designer clothes); (ii) the speed of air transportation over long distances is necessary for goods subject to spoilage (e.g. fresh cut flowers), goods requiring next morning delivery (e.g. newspapers); (iii) air transportation's lower risk of losing or damaging shipments is an advantage because the cargo has a high ratio of value to size, i.e., air cargo charges for these valuable and time-sensitive goods are usually small in comparison with the value of the items; (iv) wherever total distribution cost (TDC) framework suggests minimum TDC can be achieved by using air cargo because inventory costs are very high relative to freight costs (Zhang, and Zhang 2002).

Air cargo is even more dependent on the fifth and seventh freedoms than passenger traffic. Since time immemorial, international trade routes are logistically better in triangles or wider networks of stops. Cargo is also different from passenger traffic in two other critical ways:

• First, whereas humans prefer to fly non-stop to their destination, and if a transfer is needed, they prefer the waiting time at the hub airport to be as short as possible in an attractive airport environment (see, e.g., Carlton et al., 1980), cargo is relatively indifferent to such preferences . . . . More critically, cargo flows are unbalanced, or ''unidirectional,'' e.g., much more flows from Asia to the US than from the US to Asia. By contrast, passenger air travel is more balanced - passengers tend to make a two-way journey (from home to destination and back again). As a result, all-cargo carriers sometimes design their networks with ''big circle'' routes.

The fifth and seventh freedoms are necessary to make these "big circle" routes and any route with multiple stops to take on and discharge air cargo in different countries. The fifth freedom ("beyond rights") means that for example a U.S. carrier could fly cargo from Chicago to Mexico City, unload, and then pick up cargo in Mexico City and transport it to Buenos Aires. This would allow carriers to consolidate air freight shipments heading to Mexico and points further south in Central and South America more efficiently. The World Air Cargo Forecast predicts air cargo growth in the Latin America - Europe and Latin America - North America flows to exceed the world average at 4.8% and 5.2% growth respectively over the next twenty years. And not surprisingly Mexico is the U.S. and Canada's largest Central American air trade partner and accounted for more than half of the air cargo tonnage shipped between North America and Central America. See Tables 3 and 4 below for summary information on these flows.

However, the air cargo market that has seen the fastest recent growth has undoubtedly been air express. International express traffic grew at nearly triple the rate of total worldwide air cargo traffic, averaging more than 22% annually from 1992 to 2000, as measured in revenue ton-kilometers (RTK). After more moderate growth in the early 2000s and a steep but temporary decline after the economic crisis of 2008, the upward trend continued in 2012 and 2013 with 8.9% and 5.8% growth respectively. And two U.S. giants continue to dominate the global air express market - UPS and FedEx with 19.6% and 14.2% global market shares each in 2014. The seventh freedom rights (third country hubbing rights) could allow UPS and FedEx to set up intermodal mini-hubs in Mexico to service the Central and South American air express market and link them to their ground delivery business.

Stronger Connectivity Creates Enhanced Competitiveness

One primary pillar of HLED is enhanced competitiveness and stronger connectivity. It is fitting that the first major public policy initiative to that end was modernizing the U.S.-Mexico Air Services Agreement. The new ASA will facilitate enhanced competitiveness as astute carriers and shippers will have greater access to enrich their supply chain connectivity and competitiveness. Yuan, et al. (2010) found support for the notion that there potentially exists both an accelerator effect and a multiplier effect between and amongst investments in international airports and air cargo supply chains' performance. Thus, not only do carriers and shippers stand to gain, but infrastructure partners as well (Murphy et al. (1989)). For instance, with the loosening of the city pairs restrictions, many markets never served or underserved under the original and modified ASA have the potential to see both passenger and cargo traffic drastically increase.

Air cargo enables nations, regardless of location, to efficiently connect to distant markets and global supply chains in a speedy, reliable manner (Kasarda and Green, 2005). Thus, cargo carriers are likely to applaud the developments in the agreement. As a result, this Agreement will benefit passengers, cargo carriers, and the economies of both countries. Importantly, the new ASA meets other goals and directives of the HLED. The dialogue continues a proactive approach to strengthen transportation initiatives in meeting the goals and directives of the HLED policy initiative (White House, 2015).

DIRECTIONS FOR FUTURE RESEARCH AND CONCLUSIONS

One research arena ripe with potential is to model the new networks bound to develop once the city pair restrictions are lifted.   Hub and spoke network prediction can be fruitful in first determining the critical explanatory variables and in predicting the new market entries by the carriers, and in identifying potential opportunities for supply chain expansion. Furthermore, how will the astute shipper respond to a more liberal ASA in extending its supply chain and/or in creating a more visible supply network where control is paramount? The new ASA ought to provide the ability to increase that visibility and control via new freedoms. Thus, another promising research avenue is in the identification of those drivers and enablers, or conversely, will newly unidentified impediments arise?

The likely outcomes of the new ASA are far-reaching. More liberalized trade policies are likely to lead to stronger supply chain networks across North America, advancing the realization of one tenet of the HLED: to position North America as one of the strongest trading blocs in the world. The new ASA will likely impact other bilateral and multilateral air services agreements across the globe in an effort to modernize and contemporize policy and practice. By enhancing both connectivity and competitiveness, the new ASA will likely provide a benchmark for other HLED and trade initiatives in the future.

The ASA will become effective on January 1, 2016. It is more than just a tactical initiative designed to strengthen partnerships and enhance the countries' collective and individual economies, it is a testament to the valence of the HLED as a policy driver. Parilla and Berube (2013) argue that to be successful the HLED must include sub-national leaders, not merely cabinet-level decision-making. Furthermore, they advocate involvement for metropolitan and civil leaders in the cities that drive each nation's GDP. This leads to a call for treating Mexico as a partner rather than a competitor in production manufacturing and a commitment to shared production. The U.S. must embrace Mexico if the U.S. is to realize its vision of a "production renaissance (Parill and Berube, 2013). Consequently, the benefits stemming from a liberalized ASA should be bilateral, and synergistic. The US-Mexico Air Service Agreement is a robust proving ground for the HLED.

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TABLE 3
LATIN AMERICA-NORTH AMERICA AIR CARGO TRADE SUB-REGIONS

South America	Central America	Caribbean
1,036,000 tons	265,000 tons	75,000 tons
Chile 23.9%	Mexico 52.7%	Dominican Republic 36.8%
Colombia 23.4%	Costa Rica 18.23%	Turks & Caucos Island 36%
Brazil 18.5%	Guatemala 8.98%	Trinidad & Tobago 8.4%
Peru 13.1%	Panama 6.02%	St. Vincent/Grenadines 6.2%
Ecuador 6.9%	Honduras 5.15%	Jamaica 4.3%
Argentina 6.2%	Nicaragua 4.48%	Between 1-2% each:
Venezuela 4.8%	El Salvador 4%	Bahamas, Barbados, Grenada
Less than 1% each:	Less than 1%: Belize	Haiti, Saint Maarten
Bolivia, Falkland Islands		Less than 1% each:
Islas Malvinas, French		Anguilla, Aruba, Antigua &
Guiana, Guyana, Paraguay		Barbuda, Bermuda, British
Surname, Uruguay		Virgin islands, Cuba, Curacoa,
		Dominica, Cayman
		Islands, Saint Lucia,
		Guadalupe, Montinegro,
		Montserrat

Percentages represent each country's share of tonnage.

(World Air Cargo Forecast, 2014-2015)

TABLE 4
LATIN AMERICA - NORTH AMERICA COMMODITITY PERCENTAGES

Northbound	Southbound
830,000 Tons	549,000 Tons
Flowers 26.2%	Industrial and specialized machinery 57.2%
Fish 23.3%	Small package and shipments 9.7%
Vegetables 18.4%	Computers 9.3%
Small package and shipments 15.1%	Ferrous products 5.6%
Fruits 6%	Electrical machinery 4.3%
Other 6%	Automotive 4.3%
	Chemical 3.5%
	Telephones 3.2%
	Other 3%

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APPENDIX 1
ANNEX I
ESSENTIAL ARTICLES OF THE NEW US-MEXICO ASA*

Article 1	**Definitions**	Legal nomenclature established
Article 2	**Grant of Rights**	Reciprocal rights granted from one party to the other (e.g., Freedoms of the Air)
Article 3	**Designation & Authorization**	Each country may designate as many airlines as it wishes to conduct international air transport with this Agreement. Process of other party agreeing to designation and provisions that must be met.
Article4	**Revocation of Authorization**	Conditions outlined for either party to revoke, suspend, or limit operating authorizations.
Article 5	**Application of Laws**	Specifies laws and regulations adhered to by parties in each pothers' respective countries.
Article 6	**Safety**	Establishes safety recognitions standards and compliance (e.g., certificates of airworthiness, certificates of competency, and licenses issued or validated).
Article 7	**Aviation Security**	The Parties affirm that their obligation to each other to protect the security of civil aviation against acts of unlawful interference forms an integral part of this Agreement. Without limiting the generality of their rights and obligations under international law, the Parties shall in particular act in conformity with the provisions of the Convention on Offenses and Certain Other Acts Committed on Board Aircraft, done at Tokyo September 14, 1963, the Convention for the Suppression of Unlawful Seizure of Aircraft, done at The Hague December 16, 1970, the Convention for the Suppression of Unlawful Acts against the Safety of Civil Aviation, done at Montreal September 23, 1971, the Protocol for the Suppression of Unlawful Acts of Violence at Airports Serving International Civil Aviation, Supplementary to the Convention for the Suppression of Unlawful "Acts against the Safety of Civil Aviation, done at Montreal February 24, 1988, and the Convention on the Marking of Plastic Explosives for the Purpose of Detection, done at

		Montreal March 1, 1991, as well as any other convention relating to the security of civil aviation that is in force for both Parties
Article 8	**Commercial Opportunities**	Rights to establish offices in each others' country. Rights to bring in staff and support. Operational provisions established.
Article 9	**Customs Duties & Charges**	Specifies exemptions.
Article 10	**User Charges**	Ensures fairness and equitable treatment vis-à-vis charges.
Article 11	**Fair Competition**	Ensures fair and equal opportunity for the airlines of both parties to compete in providing the international air transport governed by this Agreement.
Article 12	**Pricing**	No filings required. Access defined.
Article 13	**Consultations**	Consultations within 60 day limit upon request by one party.
Article 14	**Amendments**	Agreement may be amended in writing, taking effect 30 days' post given diplomatic processes followed.
Article 15	**Settlement of Disputes**	Establishes arbitration and arbitral tribunal
Article 16	**Termination**	Identifies process and appropriate governing body notifications.
Article 17	**Registration with ICAO**	This Agreement and all amendments will be registered with the International Civil Aviation Organization
Article 18	**Entry Into Force**	Date of January 1, 2016 and shall supersede the Agreement signed at Mexico, August 15, 1960, as amended.

* For a complete copy of the new ASA, please contact the lead author at: Astapleton@uwlax.edu or 608-785-6667

APPENDIX 2
ANNEX II
FULL TEXT OF THE NEW US-MEXICO AVIATION AGREEMENT

SCHEDULED AIR TRANSPORTATION

A. Route Schedule: Combination Services (Persons, Cargo and/or Mail)

1. The airline or airlines designated by the Government of the United States of America shall be entitled to operate combination air services on each of the air routes specified, in both directions, and to make scheduled stops in Mexico at the points specified in this paragraph:

   a. From a point or points in the United States to a point or points in Mexico.

   b. From Dallas/Fort Worth and San Antonio to Mexico City, Toluca, and Acapulco, and beyond to points in Panama and beyond.

   c. From New York, Washington, Baltimore, Los Angeles, and Houston to Mexico City and Toluca, and beyond to a point or points in Central and/or South America.

   d. From a point or points in the United States, via an intermediate point or points, to a point or points in Mexico, and beyond, as mutually agreed in writing by the aeronautical authorities of the Parties.

2. The airline or airlines designated by the Government of the United Mexican States shall be entitled to operate combination air services on each of the air routes specified, in both directions, and to make scheduled stops in the United States at the points specified in this paragraph:

   a. From a point or points in Mexico to a point or points in the United States.

   b. From Acapulco, Hermosillo, Mexico City, Toluca, Monterrey, Oaxaca, Puerto Escondido, Tampico, Veracruz, Villahermosa, and Ixtapa/Zihuatanejo to Chicago, Kansas City, Minneapolis/St. Paul, and St. Louis, and beyond to Canada.

   c. From Acapulco, Chihuahua, Guadalajara, Guaymas, Hermosillo, Huatulco, La Paz, Loreto, Manzanillo, Mazatlan, Mexico City, Toluca, Monterrey, Puerto Escondido, Puerto Vallarta, San Jose del Cabo, and Ixtapa/Zihuatanejo to Cleveland, Detroit, Philadelphia, Washington, and Baltimore and beyond to Canada.

   d. From Acapulco, Guadalajara, Huatulco, Loreto, Manzanillo, Mazatlan, Mexico City, Toluca, Monterrey, Puerto Vallarta, San Jose del Cabo, and Ixtapa/Zihuatanejo to Boston and New York, and beyond to Europe.

   e. From Cancun, Cozumel, Guadalajara, Merida, Mexico City, Toluca, and Monterrey to Houston and New Orleans, and beyond to Canada and Europe.

   f. From Guadalajara, Huatulco, Merida, Mexico City, Toluca, and Oaxaca to Miami, and beyond.

g. From a point or points in Mexico, via an intermediate point or points, to a point or points in the United States, and beyond, as mutually agreed in writing by the aeronautical authorities of the Parties.

3. Without limitation, airlines of each Party may enter into cooperative marketing arrangements with an airline or airlines of either Party, or of a third country, to provide scheduled combination services to intermediate points and to points behind or beyond the territory of either Party.

B. Route Schedule: All-Cargo Services (Cargo and/or Mail)

1. The airline or airlines designated by the Government of the United States of America shall be entitled to operate all-cargo air services on each of the air routes specified, in both directions, and to make scheduled stops in Mexico at the points specified in this paragraph:

   a. From a point or points in the United States, via an intermediate point or points, to a point or points in Mexico, and beyond.

   b. From a point or points in Mexico to any point.

2. The airline or airlines designated by the Government of the United Mexican States shall be entitled to operate all-cargo air services on each of the air routes specified, in both directions, and to make scheduled stops in the United States at the points specified in this paragraph:

   a. From a point or points in Mexico, via an intermediate point or points, to a point or points in the United States, and beyond.

   b. From a point or points in the United States to any point.

3. Without limitation, airlines of each Party may enter into cooperative marketing arrangements with an airline or airlines of either Party, or of a third country, to provide scheduled all-cargo services to intermediate points and to points behind or beyond the territory of either Party.

C. Operational Flexibility for Combination and All-Cargo Services

1. For all services authorized under Paragraphs A and B of this Annex, each of the designated airlines is permitted, at its option, to:

   a. operate flights in either or both directions;

   b. combine different flight numbers within one aircraft operation;

   c. serve behind, intermediate, and beyond points and points in the territories of the Parties in any combination and in any order;

   d. omit stops at any point or points;

   e. transfer traffic from any of its aircraft to any of its other aircraft at any point;

f. serve points behind any point in its territory with or without change of aircraft or flight number and hold out and advertise such services to the public as through services;

g. make stopovers at any points whether within or outside the territory of either Party;

h. carry transit traffic through the other Party's territory; and

i. combine traffic on the same aircraft regardless of where such traffic originates;

without directional or geographic limitation and without loss of any right to carry traffic otherwise permissible under this Agreement; provided that, with the exception of all-cargo services, the transportation is part of a service that serves a point in the homeland of the airline.

2. Neither Party shall impose unilateral restrictions on an airline or airlines of the other Party with respect to capacity, frequencies, or type of aircraft employed in any service authorized in Paragraph A or B of this Annex.

3. Airlines of either Party designated to serve Baltimore may hold out, sell and provide services to Baltimore as services to Washington. Similarly, airlines of either Party designated to serve Washington may hold out, sell and provide services to Washington as services to Baltimore.

4. Airlines of either Party designated to serve Cuernavaca, Toluca, Puebla, or Queretaro may hold out, sell and provide all-cargo services to or from Mexico City. Airlines of either Party designated to serve Toluca may hold out, sell and provide combination services to or from Mexico City. This subparagraph shall not be construed to authorize air services not otherwise authorized to or from Benito Juarez International Airport.

CHARTER AIR TRANSPORTATION

Section 1

A. Airlines of each Party shall have the right to carry, in both directions, international charter traffic of passengers (and their accompanying baggage) and/or cargo (including, but not limited to, freight forwarder, split, and combination (passenger/cargo) charters):

1. For passenger and combination services,

   a. between any point or points in the territory of a Party and any point or points in the territory of the other Party; and

   b. from a point or points in the territory of a Party, via an intermediate point or points, to any point or points in territory of the other Party, and beyond, as mutually agreed in writing by the aeronautical authorities of the Parties, provided that such service constitutes part of a continuous operation, with or without a change of aircraft, that includes service to the homeland for the purpose of carrying local traffic between the homeland and the territory of the other Party.

2. For all-cargo services, between any point or points in the territory of a Party and any point or points in the territory of the other Party, and beyond, and between a point or points in the territory of the other Party and any point or points in a third country or countries.

B. For all services authorized under Paragraph A, in the performance of services covered by this Annex, airlines of each Party shall also have the right: (1) to make stopovers at any points whether within or outside of the territory of either Party; (2) to carry transit traffic through the other Party's territory; (3) to combine on the same aircraft traffic originating in one Party's territory, traffic originating in the other Party's territory, and traffic originating in third countries; and (4) to perform international air transportation without any limitation as to change, at any point on the route, in type or number of aircraft operated; provided that, except with respect to cargo charters, in the outbound direction, the transportation beyond such point is a continuation of the transportation from the territory of a Party and in the inbound direction, the transportation to the territory of a Party is a continuation of the transportation from beyond such point.

C. Each Party shall extend favorable consideration to applications by airlines of the other Party to carry traffic not covered by this Annex on the basis of comity and reciprocity.

Section 2

A. Either Party may require an airline of either Party performing international charter air transportation originating in the territory of either Party, whether on a one-way or round-trip basis, to comply with the administrative procedures applicable to charter operations in the country of origin of the operation, provided that such procedures do not limit the rights provided for in section 1 of this Annex. In the application of such administrative procedures, the Parties will grant to airlines treatment no less favorable than that given to its own airlines or airlines of other countries that provide similar international service.

B. However, nothing contained in the above paragraph shall limit the rights of either Party to require airlines to adhere to requirements relating to the protection of passenger funds and passenger cancellation and refund rights.

Section 3

Except with respect to the consumer protection rules referred to in the preceding paragraph, neither Party shall require an airline of the other Party, in respect of the carriage of traffic from the territory of that other Party or, in the case of cargo services, of a third country on a one-way or round-trip basis, to submit more than a declaration of conformity with the applicable laws, regulations and rules referred to under section 2 of this Annex or of a waiver of these laws, regulations, or rules granted by the applicable aeronautical authorities.